



## Tobacco Price Manipulation

### Overview:

In 1998, a settlement was reached in a major lawsuit against Big Tobacco. Formally known as the Master Settlement Agreement (MSA), this legal settlement limited many types of cigarette advertising — but it did not stop tobacco marketing altogether. Following the MSA, tobacco companies actually increased their marketing efforts, spending more than ever in venues unrestricted by the legal settlement.

Because stores were one of the few marketing venues not limited by the MSA, highly visible shelf space, point-of-sale displays, and price promotions became a primary focus for the industry — so much so that, rather than decreasing in the wake of the MSA, the total amount tobacco companies spend on marketing increased. In fact, despite declines in the last few years, the amount spent per-pack on marketing and promotion has more than doubled since the MSA.

### The Facts:

**Tobacco price manipulation refers to the tobacco industry's efforts to get more smokers hooked by artificially lowering the price of cigarettes.** Cigarette manufacturers provide financial incentives to retailers; in exchange, retailers agree to discount or promote the manufacturer's cigarettes in-store.

These agreements between manufacturers and retailers are designed to hook smokers for the long term by offering short-term deals. People who are trying to quit, and groups like youth and low-income communities who are most likely to make decisions based on price, are often most vulnerable to these pricing schemes.

- **Price discounting and buy-downs:** Tobacco companies give discounts to retailers in order to lower cigarette prices through promotions such as "dollar-off" and "buy-one-get-one-free" offers for consumers. Tobacco companies conduct these price-lowering promotions because they know that [multi-pack discounts](#) generate more sales.

**Price manipulation is harmful because it reduces the effectiveness of California's tobacco tax.** The [tobacco tax](#) is designed to stop people from smoking, and is particularly effective among youth, pregnant women and low-income smokers.

Other examples of in-store promotions include:

- **Product displays:** Tobacco companies pay retailers to display tobacco products so that the brand name and logo are visible but the Surgeon General's warning is not, thereby [maximizing the cigarette pack's advertising](#) and visual impact.
- **Power walls:** Tobacco companies provide incentives to retailers to put up "power walls," [excessive displays of tobacco packages](#) in quantities far greater than what stores need on-hand for short-term sales, and are commonly visible behind the cash register.

### What Needs to be Done:

Various actions can be taken to counteract price manipulation by the tobacco industry, including the following:



- **Minimum Price or "Fair Trade" Law:** Establishes a minimum price for tobacco products to reduce consumption.
- **Ban or Constrain Buy-downs and Tobacco Industry Promotions:** Limits industry manipulation of tobacco prices.
- **Fairness Doctrine for Buy-downs and Price Promotions:** Requires placement of anti-tobacco advertising in stores to offset each buy-down or promotion offered.
- **Performance-Based Regulation:** Assigns manufacturers targets for reductions in smoking rates.
- **Sunshine or Disclosure Law:** Requires that manufacturers publicly disclose payments to retailers.